

PROGRAM TO SUPPORT SMALL-SCALE COTTON PRODUCERS

(PR-0082)

EXECUTIVE SUMMARY

BORROWER: Republic of Paraguay (GoP)

EXECUTING AGENCY: Ministry of Agriculture (MAG)

AMOUNT AND SOURCE:	<u>Phase 1</u>	<u>Phase 2</u>	<u>Total</u>
IDB:	US\$25.65	US\$16.38	US\$42.03 (90%) (contingent IFF)
Local contribution:	US\$ 2.85	US\$ 1.82	US\$ 4.67 (10%)
Total:	US\$28.50	US\$18.20	US\$46.70 (100%)

FINANCIAL TERMS AND CONDITIONS FOR PHASE 1:

Amortization period: 20 years

Disbursement period, phase 1: 5 years

Disbursement period, phase 2: 4 years

Interest rate: variable

Inspection and supervision: 1%

Credit fee: 0.75% per year on the undisbursed balance

Currency: Dollars of the United States of America from the Single Currency Facility

OBJECTIVES:

The program's primary objective is to promote sustainability in the production systems of small-scale cotton units, increasing their net income by: (i) reducing production costs caused by cotton pests, through integrated pest management (IPM); (ii) increasing the productivity of small-scale cotton farms through seed improvement, IPM, soil conservation and management practices (SCMP) and crop rotation; and (iii) improving the environment by reducing the unnecessary use of pesticides.

DESCRIPTION:

In order to achieve the targeted objectives, the program will be executed in two phases: (i) phase 1 will have an execution period of five years and a total cost of US\$28.5 million. In addition to direct technical assistance for 20,000 producers, it will include other complementary activities relating to the pest monitoring and control system, communication campaigns, and improved cotton seed quality, and

US\$2 million for the Regional Agricultural Technology Fund (FONTAGRO); and (ii) phase 2 will have an execution period of four years and a total cost of US\$18.2 million. It consists of expanding the direct technical assistance to another 20,000 producers and the costs of the sixth year of the program for the activities under the pest monitoring and control system and the communications campaign. Phase 2 will be initiated during year three of phase 1 once the goals of phase 1 have been achieved.

The program is organized into four main components, as follows:

The pest control and monitoring system component calls for basic activities for technical assistance to prevent propagation of the boll weevil (*Anthonomus grandis*), such as establishing the following: (i) a monitoring network in the department of Chaco, including measures to keep the area free of weevils; (ii) a pest trap and monitoring network and a plant inspection system for monitoring the cotton pest complex, which will provide the basic information (such as levels of damage, density, distribution, etc.) needed to increase the efficiency of the IPM techniques; (iii) strengthening the MAG quality control laboratory in order to guarantee the quality of locally marketed plant health products; and (iv) technical validation, including activities to evaluate IPM practices and to make any necessary adjustments according to the micro-ecological conditions in the program areas of activity.

The communications campaign consists of activities to support and strengthen other components of the program by implementing a system for production, conservation and use of educational communications messages to train producers in IPM and SCMP techniques, producer organization, pesticide use and management and environmental conservation techniques. Messages and technology packages will be disseminated through newspapers, videos, news reports and rural radio and television programs with national coverage. Educational materials will include videos, cassettes, posters, cards, brochures and fliers on the subject, with a view to achieving the proposed objectives. The campaign will be carried out in Spanish and Guaraní and will target all cotton producers in the country.

Under the technical assistance component, direct technical assistance in IPM, SCMP and crop rotation techniques will be given to 40,000 producers, with a view to production diversification and environmental

conservation (also divided into two phases). It will target the achievement of environmental and financial sustainability for small-scale cotton producers through the hiring of outsourced technical units (OTUs). It will also include organizing small-scale cotton producers in order to facilitate technical assistance and stimulate training in terms of access to technology, direct credit and services in general, particularly marketing.

Seed improvement component will strengthen areas considered vital for modernization of the seed subsector, with a view to improving the quality standards of seeds used by farmers. The proposed activities to establish a national seed system will be based on an integrated set of activities carried out by the respective government agencies (plant quality and health) and private sector institutions (production and marketing). By the end of the fourth year of program execution certification of 100% of the seeds sold in the country is expected to be achieved.

**ENVIRONMENTAL AND
SOCIAL REVIEW:**

The environmental impact studies carried out concluded that most of the impact to be generated by the program should be positive for the environment and the socioeconomic status of small-scale cotton producers. The proposed environmental management plan will seek to strengthen the positive environmental and social impact. During program execution, an environmental specialist is to be incorporated into the National Project Administration and Coordination Office (DINCAP) and a water quality monitoring program carried out to evaluate pesticide content in selected water ways. The program also calls for general monitoring of its execution, including environmental aspects, by an independent group hired by the DINCAP (paragraph 3.26).

BENEFITS:

Program execution will generate the following benefits: (i) reduced risk of weevil infestation in the department of Chaco; (ii) identification of the types and density of cotton pests in order to apply efficient methods of combating them; (iii) improved quality of the plant health products sold in the country; (iv) development and validation of new IPM technologies; (v) dissemination of information throughout the country on IPM and SCMP techniques among cotton producers; (vi) improved quality of the seeds sold in the country; and (vii) increased awareness among the rural population of environmental conservation.

RISKS:

The primary risks of the operation are the following:

(i) the excessive amount of time that the MAG has required in the past to directly hire OTUs and the various consulting firms could delay program execution. The signing of the agreement between the MAG and the Inter-American Institute for Cooperation in Agriculture (IICA) for the latter to engage the specialized services and technical assistance as provided for in the program could reduce this risk; and (ii) the change in the central government administration of Paraguay scheduled for August 1998, could imply a risk of delays in program execution. However, the program's economic and social importance to the agricultural sector and to the very economy of the country is a factor of considerable political weight that helps minimize the risk.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's actions focus on five strategic areas: (i) the financial sector, to contribute to improving operation of the system and support capital market development; (ii) State reform, to improve the State's efficiency in providing public services and to strengthen governance; (iii) modernization of the productive apparatus, to promote economic efficiency; (iv) support for the social sectors, to promote their development; and (v) support for rural areas, to reduce poverty and improve the standard of living of the population, particularly the poor.

Given the importance of the agricultural sector in production, exports and job creation, the proposed operation seeks to address the following strategic guidelines of the Bank: (i) increased income for small-scale farmers and a consequent reduction in rural poverty; (ii) development of commercial agriculture, including mechanization and diversification of small-scale farm production; and (iii) resolution of the environmental problems of deforestation and erosion.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

(a) Prior to the first disbursement, the executing agency must demonstrate that: (i) the Operating Regulations agreed upon with the Bank have entered into force (paragraph 3.30); (ii) an agreement has been entered into with the IICA establishing the conditions for the latter to hire the consulting services and technical assistance provided for under the program (paragraph 3.10); (iii) the program's technical operating committee (CTOP) has been created by ministerial decree (paragraph 3.7); and (iv) the DINCAP has the authority to incur the operating expenses provided for in the annual work plan (paragraph 3.6).

(b) Within six months after program initiation, the

executing agency will submit evidence that the School of Agricultural Sciences of Asunción National University has been hired (paragraph 3.27).

(c) The agreement will also contain sufficient provisions to ensure: (i) the collection and processing of data for the ex post evaluation (paragraph 3.43); (ii) a mid-term review of the operation to verify the progress achieved in phase 1 (paragraph 3.32); and (iii) an ex post evaluation (paragraph 3.42).

**POVERTY TARGETING
AND SOCIAL
ASPECTS:**

According to the criteria set forth in the Eighth Replenishment document, the proposed program qualifies as targeting social equity and poverty reduction (AB-1704, paragraphs 2.13 and 2.15), since it will serve rural areas with a higher proportion of low-income groups, and the majority of its beneficiaries will consist of low-income groups (paragraph 4.21).

**EXCEPTIONS TO
BANK POLICY:**

See the section on procurement below.

**PROCUREMENT OF
GOODS AND
CONSULTING
SERVICES:**

The Bank's current policy will be followed for the procurement of goods and the awarding of contracts for works and consulting services to be financed with program resources. When the proceeds of the IDB loan are used, the thresholds above which international competitive bidding will be required will be the following: US\$250,000 for the procurement of goods and US\$200,000 for consulting services. It is recommended that, as an exception to the open competition selection procedure, the IICA (paragraph 3.10) and the Asunción National University School of Agricultural Sciences (paragraph 3.27) be hired directly. The two institutions will carry out any type of procurement or other activities required in accordance with Bank procedures. Such contracts will satisfy the stipulations set forth in section GS-403 of the Procurement Manual.

**PROCEDURES FOR
APPROVAL OF
PHASE 2:**

The Bank will consider phase 2 once the following conditions have been fulfilled: (i) at least 50% of the resources for phase 1 of the program have been disbursed; and (ii) satisfactory progress has been made in achievement of the established goals (paragraphs 3.32 and 3.41).